

# Investing for Your Retirement



*Make Your Retirement Dreams a Reality...*

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## Make Your Retirement Dreams a Reality

If you're like most people, you don't want to work for the rest of your life. You probably look forward to the day when you retire and spend more time doing the things you enjoy. And that time will come much sooner than you think. To be ready for it, you need a plan. You need to save. You need to invest. And you need to start now.

## Why Plan for Retirement?

Planning, saving and investing for your retirement can help you achieve financial independence during retirement. You probably don't want to lower your standard of living when you retire. In fact, you may want to increase it to travel more and enjoy other leisure activities. To do that, **most financial professionals agree you will need about 70 percent to 90 percent of the income you had before you retired.** Generally, your pension benefit and Social Security will cover only a **portion** of this amount. The rest will have to come from what you do on your own – from how much you save and how you invest.

## Need Another Reason to Invest?

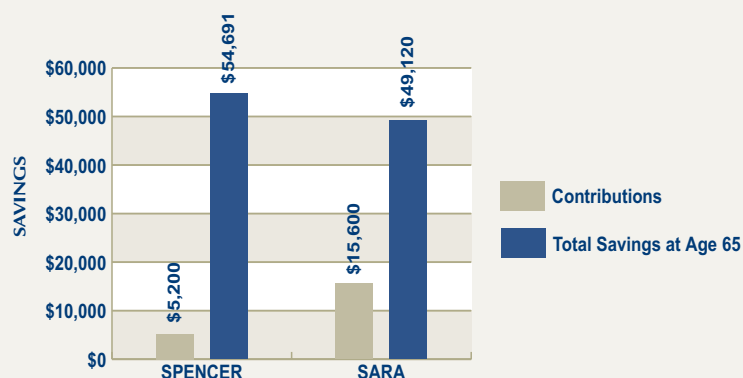
Consider this:

- Sara and Spencer have the same annual income and have similar investment goals.
- Spencer starts saving at **age 25**, contributes \$10 a week each year **for 10 years** (\$5,200 in total), then stops adding money to his account.
- Sara starts saving at **age 35** and contributes \$10 a week each year **for 30 years** (\$15,600 in total), then stops adding money to her account.
- Both Spencer and Sara earn an investment return of 7 percent per year after expenses.

### Terms to Know

Words or phrases in this booklet that you may want to know more about are highlighted in italics, like *this*. Their definitions are in the glossary on Page 13.

So, who will have more money at age 65 ... Spencer or Sara?



Spencer will – \$54,691 to Sara's \$49,120 – almost **11 percent more** than Sara. That's the "magic" of compounding – money earning more money through investing over time – which Einstein supposedly called "the most powerful force in the universe."

It's never too early **or** too late to start investing. The more you save and invest now, the better your chance of meeting your retirement goals.

**You can save and invest in the 401(k) and the 457 tax-deferred savings plans offered through the South Carolina Deferred Compensation Program. For more information, see Pages 10 – 11.**

## Think You Can't Invest?

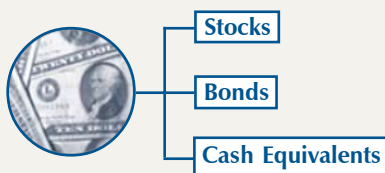
Sure you can. In fact, you're probably already investing – maybe not for your retirement, but in a house or a car, perhaps. The risks and rewards associated with investing for your retirement are similar to those associated with other long-term investments in your life. The value of your house could go up or down. Your car could be a lemon or last for years.

So, how do you invest to make the most of your retirement? The information in this guide will help you get started.

On this and the following pages, you'll learn some basic but very important investing concepts. If you plan for retirement, save steadily, and invest wisely, you will significantly improve your odds of meeting your retirement goals and doing the things you have dreamed about.

## Where Can You Invest Your Money?

There are three major places, or *asset classes*, in which you can invest your savings: stocks, bonds, and cash equivalents.



### Stocks

Stock is ownership in a company. It is measured in shares. Each share is a part of the company you “own.” How well a stock performs is based in part on:

- A company's profits; and
- How well investors think the company's future profits will grow.

In the past, stocks have provided the highest returns in the long run. However, stock prices go up and down over time (known as *volatility*) – sometimes dramatically in the short run, but typically less so in the long run.

### Bonds

Companies, governments, and other organizations borrow money all the time – through bonds. A bond is a long-term IOU. It's a promise that money will be repaid in a specified period of time – for example, 5, 10, or 20 years.

Most bonds come with a fixed rate of interest on the amount that was loaned. The interest is payable to you, as buyer and holder of the bond. Each bond also has a fixed amount you'll be repaid if you hold the bond until it matures (at the end of the preset time period). Bonds are only as secure as the borrower's ability to pay back. Generally though, bonds are a more “secure” investment than stocks.



## Cash Equivalents

*Cash equivalents* (also called “money market” or “short-term securities”) are short-term IOUs. A government, corporation, bank, or other financial institution issues them. Through interest payments from these IOUs, cash equivalents provide income while keeping a stable share price. Income from cash equivalents is often less than income provided by stocks and bonds. Investors typically rely on cash equivalent investments to hold money they will need for short-term goals. Cash equivalent investments include *guaranteed investment contracts (GICs)* and *fixed income securities*.

## Investing in Mutual Funds

Mutual funds are an easy way to own stocks, bonds, and cash equivalents. Most people who invest put their money in mutual funds. By their nature, these funds help manage risk.

### Why Invest in Mutual Funds?

Investing in mutual funds has two key advantages over investing in individual stocks, bonds, and cash equivalents:

- Investment professionals manage your money. That eliminates the need for you to analyze specific stocks or bonds.
- You get the advantage of *diversification* – your money is invested in many stocks, bonds, and/or cash equivalents. That can reduce your losses if certain individual investments do poorly.

When you invest in a mutual fund, you become a part-owner of (that is, you hold shares in) a large investment pool, along with the fund’s other shareholders – other people like you.

Each mutual fund invests in certain kinds of stocks (those of small companies, mid-sized companies, or large companies, for example); in certain kinds of bonds (short-term, medium-term, and/or long-term bonds); in cash equivalents; or in a combination of these.

There are many different types of mutual funds. Each fund has a specific objective. Some are designed to make the value of your investment grow a lot, but have more risk. Others are designed to keep the value of your investment and grow enough to stay just ahead of *inflation*, but have less risk.

Mutual funds are also often labeled based on the types of stocks, bonds, or cash equivalents in which they invest. For example, a *foreign stock fund* invests in stocks of companies outside the U.S. A domestic *small cap stock fund* invests in stocks of smaller companies based in the U.S. A “bond fund” invests in bonds that pay interest. Some of the major mutual fund categories are defined in the glossary (Page 13).

### What Is a “Balanced” Fund?

Some mutual funds invest in a mix of stocks and bonds. These are called “balanced funds.” Their investments are “balanced” to provide both *income* and *capital appreciation* while reducing risk.

A team of investment professionals manages each mutual fund. Each fund's manager chooses the actual places in which the fund invests. For example, he or she selects the companies in which the fund will buy stock, or the specific types of bonds the fund will purchase to meet the fund's objectives.

### There are two key things to remember when choosing a mutual fund:

- Understand the objective of the fund.
- Be sure the fund fits with **your** investment objective.

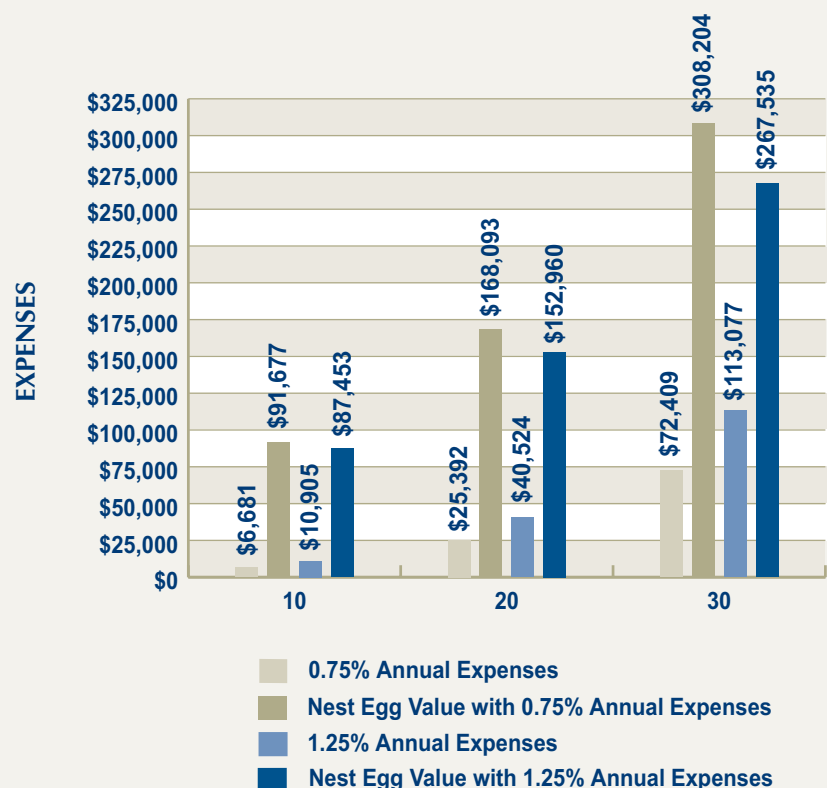
### Does It Cost Money to Invest in Mutual Funds?

Many mutual funds do not charge a fee to put money into or take money out of them. These funds are “no-load” funds. The mutual funds offered through the South Carolina Deferred Compensation Program (see Pages 10-11 for Program information) are no-load funds.

However, once you put your money in a mutual fund, the fund will charge you expenses to **manage** your money. And that's OK, since you're paying for professional investing expertise.

But some funds charge more than others to manage your money – even funds with similar investment goals. And you're paying that money. It comes straight out of your account, as a percentage of the money you have invested in the fund. Even a small amount can add up over time.

Take a look at the impact of annual expenses of 0.75 percent or 1.25 percent on a \$50,000 nest egg that grows at 7 percent per year.



As you can see, it **pays** to pay attention. Being a successful investor means knowing what you'll spend (your investment expenses), as well as what you may earn (your return on your investment)! Know how much you'll be charged **before** you invest.

## What Kinds of Risks Are You Taking When You Invest?

Risk is a part of life. But that doesn't stop us from living our lives and doing the things that are important to us. One of those important things is having enough money to live comfortably in retirement. To do so, you have to take on **some** risk to grow your money.

Two of the basic types of risk you need to know about are market risk and inflation risk.

### Market Risk

This type of risk is the one that investors tend to worry about most. It's the risk that you'll lose money if the value of your investments (stocks or bonds, for example) goes down as the markets go down. Market risk is caused by events such as war, inflation, recession, and a change in interest rates. All of these affect the ability of businesses to make money. That affects the value of the stocks and bonds issued by those businesses. If the value of those stocks and bonds falls, the value of your investment decreases.

### Inflation Risk

There's also risk when your money is in a "safe" investment or not invested at all. That's "inflation risk" – the chance that "safe" money in a bank savings account or cash equivalents, for example, won't provide enough earnings to keep up with inflation. If you're losing money to inflation, you may not be able to meet your long-term financial goals.

#### Playing It Too Safe Is Risky, Too

Let's say you put your money in cash equivalents that earn a 5% return. If inflation is 6%, you're actually **losing** money by playing it safe. Your actual return is negative 1% ( $5\% - 6\% = -1\%$ ). And then when you consider taxes, your return is even further reduced. Strange, but true – sometimes the "riskiest" thing you can do is play it too safe!

## How Do You Balance Risk and Return?

At this point, you may start seeing how important – and even necessary – it is to take on some risk to make your money grow. The ideal situation is to take on the least risk for the greatest *return*. You can do that by:

- Spreading your investments around ("asset allocation");
- Creating a group of investments that work well together (building a "portfolio");
- Taking a "long-term view" of investing; and
- Not trying to time the markets.

### Spread Your Investments Around Wisely – That's "Asset Allocation"

"Variety is the spice of life."

"Don't put all your eggs in one basket." These common sayings are at the heart of reducing risk and increasing the chances of higher investment returns. You can do this through "asset allocation" – spreading your investment dollars and risk among stocks, bonds, and cash equivalents. This tends to work well because the value of stocks, bonds, and cash equivalents often goes up and down at different times. Through asset allocation, you can better protect your money from big losses, no matter how the market is doing.

### Importance of Asset Allocation

According to research that won the Nobel Prize, the percentage of money you invest in stocks, bonds, and cash equivalents accounts for *approximately 90%* of how well your money grows. The remaining 10% is determined by **which** particular investments you select and **when** you decide to buy them.

### Build a “Portfolio”

“Asset allocation” doesn’t mean picking only the mutual funds with the best performance over time (say, the last one-, three-, five-, or ten-year period). And it **doesn’t** mean sprinkling your money in a few investments here and there. You need to build a “portfolio” (a group of investments) to meet your goals.

How? By choosing:

- Mutual funds from different asset classes (stocks, bonds, cash equivalents) that tend to move up and down in value at different times.
- Several different mutual funds that invest in different kinds of stocks (e.g., U.S. stocks, foreign stocks, small-company stocks, large-company stocks) and/or different kinds of bonds, and cash equivalents – some of which grow more than others at different times.

It’s important, too, that you adjust your portfolio as your personal situation changes. For example, as you get closer to retirement, you’ll have less time to weather the ups and downs of the markets. You may want to have less invested in stocks and more invested in bonds and cash equivalents.

### Bonds and Stocks Work Well Together

A mix of stocks and bonds in your portfolio is a well accepted way to allocate your assets. Here’s why.

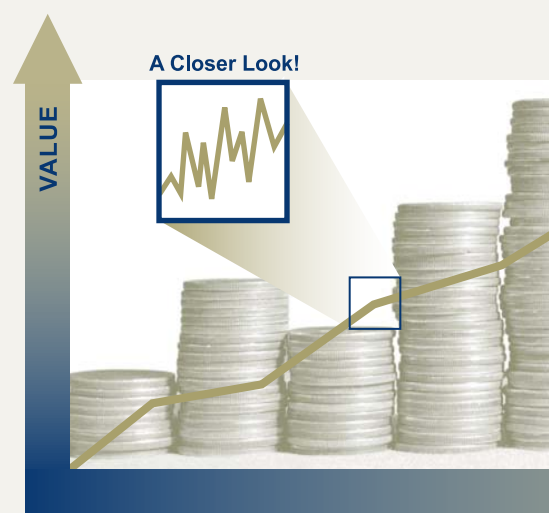
- The value of bonds and stocks often move in opposite directions – when stocks go up, bonds often go down (and vice versa). That’s because when the stock market is strong, investors see stocks as more attractive than bonds.
- Because bond prices don’t move up and down as much as stock prices, bonds aren’t considered as risky as stocks.

### Take a “Long-Term View” of Investing

Investing isn’t the same as saving for a vacation or a new car. Those are short-term goals. Investing is setting aside money in stocks, bonds, and/or cash equivalents for the long term – 10 years or more.

It’s a challenge to ignore the daily, weekly, and even monthly ups and downs in the market. They’re reported all over the papers and TV every day. Those ups and downs are primarily short-term events. When you’re in it for the long term, you can generally ride out bumps because your investments have time to recover if they drop in value. Make sure you give your investments time to perform and meet their objectives.

### Short-Term Volatility Occurs





### Don't Time the Markets

Buy low, sell high. That's every investor's dream. But trying to "time the market" – buying and selling at specific times – is a loser's game. Few if any professional money managers even try it. They don't know for sure which way the market is headed, and they don't guess. Neither does an informed investor. Investing regularly over time is the safest way to grow your money.

### Investors During Long-Term Gains



### Should You Invest in Stocks, Bonds, or Cash Equivalents?

Whether you invest in stocks, bonds, cash equivalents, or some combination depends on two key things:

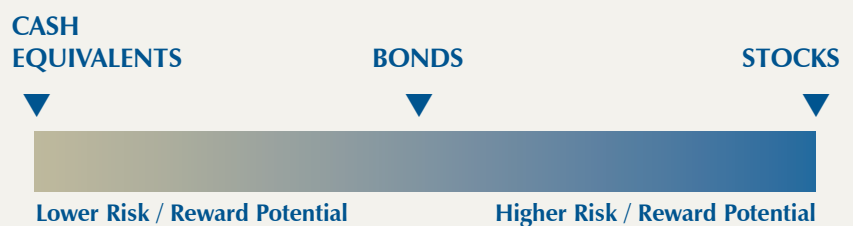
- Market risk and how long you have until you need your money; and
- Your risk tolerance (your "sleep factor").

### Understanding How Market Risk and Time Work Together

The markets go up and down routinely – sometimes quite a bit day to day. But if time is on your side, you can ride out the ups and downs of the markets. With 10 years or more, you can choose investments that may go up and down more in the short term, knowing that in the long term those investments can earn greater returns. That gives you the opportunity to place a greater emphasis on stocks.

In the past, stocks have outperformed bonds and cash equivalents by a long shot. In the short term, though, they've also had the biggest price swings. So, as you get closer to needing your money (say, closer to retirement), you may want to move some of it into less risky investments. That will reduce the chance of short-term losses. But if you're fairly far away from needing your money, consider investing at least a portion of your money in stocks.

Here's a look at how risk and return stack up for stocks, bonds, and cash equivalents:



## Knowing Your Risk Tolerance (Your “Sleep Factor”)

When you make important decisions, like you do about investing, you want to live comfortably with them. You don’t want those decisions to keep you up at night. Your “sleep factor” is a good way to measure your acceptable level of risk tolerance.

When you invest for the long term, ask yourself, “How well will I be able to sleep knowing where I invested my money?” That is, what is your tolerance for risk?

### Education Can Help You Sleep

Your risk tolerance isn’t something you’re born with. It can increase the more you know and understand about investing. When it does, you may be more ready to take on a higher level of risk to help grow your money for the long term.

Use this guide and other materials on the subject (such as the South Carolina Retirement Systems’ investment education video) to help you make informed decisions and sleep more comfortably.

## Risk Tolerance Questionnaire

To get a sense for your risk tolerance, ask yourself the questions below. For each question, circle the number on the right that corresponds with the answer you select. When you’re done with all questions, add the numbers you circled and look at the scoring legend at the end of this questionnaire to get a sense for your risk tolerance.

1. **How many years do you have until retirement?**

a. 2 to 3 years	1
b. 4 to 6 years	20
c. 7 to 10 years	40
d. 11 to 14 years	45
e. 15+ years	50
  
2. **Do you think you may need access to more than one-third of your retirement savings within the next 10 years?**

a. No	50
b. Yes, in 2 to 3 years	5
c. Yes, in 4 to 6 years	20
d. Yes, in 7 to 10 years	30
  
3. **Do you have an emergency fund worth six months of your salary after taxes?**

a. No	2
b. Yes, but it is worth less than six months of salary	4
c. Yes	8
  
4. **Do you have a separate savings account for other major expenses?**

a. Yes	8
b. I do not foresee such expenses	8
c. I plan to use my retirement savings	5
d. No	2
  
5. **How much of your total assets are invested outside of the account?**

a. Less than 25%	2
b. 26% to 50%	3
c. 51% to 75%	7
d. More than 76%	8
  
6. **Assuming an inflation rate of 3% per year, which one of the following describes your expected future salary earnings over the next 5 years?**

a. They will far outpace inflation	5
b. They will stay ahead of inflation	3
c. They will keep pace with inflation	2
d. They will lag behind inflation	1
  
7. **Approximately what portion of your monthly take-home income goes toward paying off debt other than a home mortgage?**

a. Less than 10%	8
b. 10% to 25%	6
c. 26% to 50%	3
d. More than 51%	1

8. **How many dependents do you have?**
- a. None 4
  - b. 1 3
  - c. 2 or 3 2
  - d. More than 3 1
9. **Have you ever invested in individual bonds or bond mutual funds?**
- a. No, I would be uncomfortable with the risk 1
  - b. No, I would be comfortable with the risk 9
  - c. Yes, I would be uncomfortable with the risk 2
  - d. Yes, I would be comfortable with the risk 10
10. **Have you ever invested in individual stocks or stock mutual funds?**
- a. No, I would be uncomfortable with the risk 2
  - b. No, I would be comfortable with the risk 12
  - c. Yes, I would be uncomfortable with the risk 3
  - d. Yes, I would be comfortable with the risk 15
11. **When it comes to investments, what category do you feel most comfortable in?**
- a. 1 1
  - b. 2 Lower volatility, lower return 2
  - c. 3 3
  - d. 4 4
  - e. 5 Moderate volatility, moderate return 5
  - f. 6 6
  - g. 7 7
  - h. 8 Higher volatility, higher return 8
  - i. 9 9
12. **Which of the following statements describes your feelings toward investing?**
- a. I prefer low-risk investments that preserve principal 1
  - b. I prefer a mix of low- and high-risk investments, with most low-risk 2
  - c. I prefer a balance of low- and high-risk investments 4
  - d. I prefer a mix of low- and high-risk investments, with most high-risk 6
  - e. I prefer high-risk investments that offer growth of principal 8
13. **If taking more risk would definitely increase your chances for higher returns, would you be:**
- a. Willing to take a lot more risk with all your money 16
  - b. Willing to take a little more risk with all your money 10
  - c. Willing to take a lot more risk with some of your money 5
  - d. Unlikely to take much more risk 2

### Scoring Legend

Very Conservative: Less than 60  
 Conservative: 61 – 80  
 Moderate: 81 – 130  
 Aggressive: 131 – 160  
 Very Aggressive: 161 and above

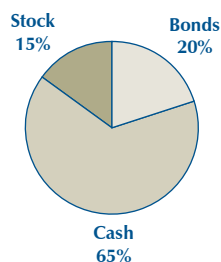
## How Do You Create an Investment Portfolio?

Consider the information you just learned about time and risk, and your risk tolerance. Now take a look at the following sample investment portfolios. They show the percentage of your portfolio that you could invest in different asset classes, based on your risk tolerance. The risk tolerance categories you see are only points on a very broad scale. You may not fall exactly into any one category – and that's OK. Investing is part science and part art, so it's not exact.

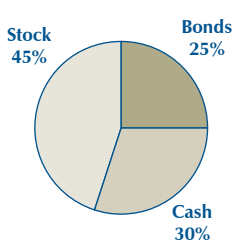
Keep in mind that these sample portfolios are provided only as a guideline. They may not be appropriate for you. If you are unsure about your investment needs, talk with a financial advisor.

### Sample Investment Portfolios

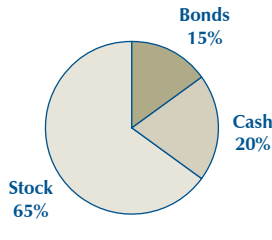
#### Very Conservative



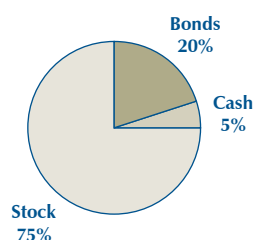
#### Conservative



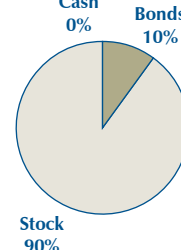
#### Moderate



#### Aggressive



#### Very Aggressive



Source: CitiStreet LLC – This material is designed for information purposes only and is not a specific investment recommendation for you. The allocation that is appropriate for you will differ depending on your other investments, risk tolerance, time horizon and other important factors. The decision to invest in a retirement plan is yours and CitiStreet does not guarantee your results. CitiStreet does not give tax or legal advice.

## So Now What?

### Get Started Right Away

Time is money, so the first thing is to get started. If you're not already participating, enroll in the *tax-deferred*, state-sponsored plans under the South Carolina Deferred Compensation Program. Saving and investing even small amounts over time can have a big payoff – bigger than you might think. And, it's easy to do with automatic payroll deductions.

### The South Carolina Deferred Compensation Program

The South Carolina Deferred Compensation Program (SCDCP) offers a *401(k) savings plan* and a *457 savings plan*. These voluntary retirement savings plans can help you supplement your Retirement Systems' pension. You can participate in both of these plans. It's up to you whether you join.

If you participate, you decide how much to have deducted automatically from your pay, tax-deferred – that means, no current taxes are taken out. That amount is put in an account in your name. You decide where to invest your money among the mutual funds and other investment products offered.

The investment earnings on your tax-deferred savings also grow tax-deferred. That means there's more money to grow in your account, compared with saving and investing with after-tax dollars outside the plans. The result can be greater savings over time, especially when you combine tax deferral with the power of compounding. You don't pay taxes on your account until you take it out of the plans.

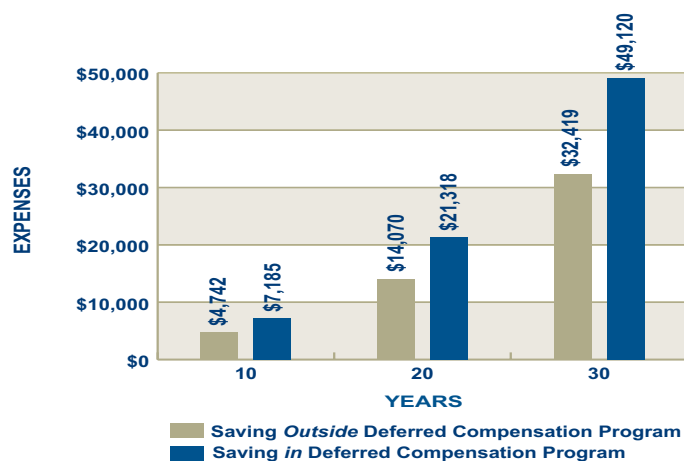
For more information about the SCDCP, contact CitiStreet, the SCDCP's recordkeeper and administrator, toll free at 866-826-7283, or visit the SCDCP's Internet Web site at <http://scrs.csplans.com>.

### What a Difference Tax-Deferred Savings Can Make!

When you save and invest in the South Carolina Deferred Compensation Program (SCDCP), you lower your current taxes in two ways:

- You don't pay current taxes on the amount you contribute; and
- You don't pay current taxes on your investment earnings.

Here's an example that compares saving \$10 each week in one of the SCDCP's savings plans, or in a taxable investment, like a retail mutual fund. It assumes a combined state and federal income tax rate of 34%, and 7% investment earnings. Look what a difference tax-deferred savings can make!



Your SCDCP savings and investment earnings are taxable only when you take them out of the plan – usually during retirement, when your tax rate may be lower because you have less income.

### The State Optional Retirement Program (State ORP)

The State Optional Retirement Program (State ORP) is an alternative to the South Carolina Retirement System (SCRS) traditional pension plan. (See the *Select Your Retirement Plan* guide for eligibility rules.) **If you are a participant in the State ORP, you may participate in the South Carolina Deferred Compensation Program as well.**

The State ORP is a defined contribution plan. You and the state each contribute a certain tax-deferred amount to an account in your name under the plan.

Under the SCRS traditional pension plan, the state of South Carolina is responsible for investing contributions made to the plan, and assumes the associated investment risks. Those invested contributions pay benefits for all plan participants. Each participant's benefit is based on a formula.

However, under the State ORP, you decide where to invest your money among the investment products offered under the plan. You assume the associated investment risks. Your benefit is the value of your account when you leave your job.

For more information about the State ORP, ask your human resources department for a *Select Your Retirement Plan* guide and the pension plan choice video, both of which explain the SCRS pension plan and the State ORP. You can also visit the South Carolina Retirement Systems Internet Web site at [www.retirement.sc.gov](http://www.retirement.sc.gov).



## Where Can You Go to Keep Learning?

If you have Internet access, visit a financial learning Web site. You can get more information on investing, estimate your retirement needs, and see how much you'll have to save so you can live comfortably in retirement.

### Web Sites

Here are some sites you may want to visit:

- ABC News MONEYScope: [www.abcnews.go.com/sections/business/](http://www.abcnews.go.com/sections/business/)
- CalcCentral: [www.calccentral.com/retirement.html](http://www.calccentral.com/retirement.html)
- CBS MarketWatch: [www.cbsmarketwatch.com](http://www.cbsmarketwatch.com)
- CNNmoney: [www.money.com](http://www.money.com)
- Investorguide: [www.investorguide.com](http://www.investorguide.com)
- Investorwords: [www.investorwords.com](http://www.investorwords.com)
- Morningstar: [www.morningstar.com](http://www.morningstar.com)
- Quicken: [www.Quicken.com/retirement](http://www.Quicken.com/retirement)
- SmartMoney: [www.smartmoney.com/retirement](http://www.smartmoney.com/retirement)
- South Carolina Retirement Systems: [www.retirement.sc.gov](http://www.retirement.sc.gov)

Or, go to the Google search engine ([www.google.com](http://www.google.com)) and type in “investment 101,” “investing basics,” “retirement planning,” or other similar phrases.

### Tips on Finding A Financial Advisor

- **Do some research.** Ask family, friends and business associates for recommendations. Then visit the Web sites of the Financial Planning Association ([www.fpanet.org](http://www.fpanet.org)) and the Certified Financial Planner Board of Standards ([www.cfp-board.org](http://www.cfp-board.org)) for members in your area.
- **Look for a professional designation.** Every financial advisor should have at least one of these after his or her name: CFP, ChFC, CLU, CFA, and/or AICP/AFP. (See the glossary.)
- **Understand how advisors are paid.** Advisors can be paid a fee only for advice (they generally provide the most independent advice); some earn a commission only (by selling you financial products); some give advice for a fee but also get commissions for what they recommend; and some give advice for a fee but deduct commissions they earn against the fee they charge you.
- **Narrow your list and ask questions.** Choose less than 10 candidates. Call each and find out if they work with clients at your asset level. Ask each remaining candidate the following\*:

1. What experience do you have?
2. What are your qualifications?
3. What services do you offer?
4. What is your approach to financial planning?
5. Will you be the only person working with me?
6. How will I pay for your services?
7. How much do you typically charge?
8. Could anyone besides me benefit from your recommendations?
9. Have you ever been publicly disciplined for any unlawful or unethical actions in your professional career?
10. Can I have our agreement in writing?

\*Source: Certified Financial Planner Board of Standards.

### Publications

You can also visit your local library or bookstore to take a look at some of these publications:

- *The Complete Idiot's Guide to Investing Like a Pro* (by Edward T. Koch and Debra DeSalvo)
- *Investing for Dummies* (by Eric Tyson and James C. Collins)
- Money magazine
- Morningstar Pages (which provide independent, objective analysis for over 1,000 mutual funds)
- *Selecting Investments for Your Retirement Account* (by Richard D. Glass and Stan Marshall)
- SmartMoney magazine
- *The Wall Street Journal Guide to Money and Investing* (by Kenneth M. Morris and Virginia B. Morris)

Or, ask your librarian or bookstore clerk for books and publications on personal finance and investing.

*The information in this guide is meant to serve as a guide and should not be considered investment advice. You should consult with a financial planner, accountant, or other financial services professional for assistance with investing and retirement planning.*

*The South Carolina Retirement Systems does not guarantee the future performance of your account in any plan under the South Carolina Deferred Compensation Program or under the State Optional Retirement Program. Investments provided under these programs are subject to various market, currency, economic, inflation, political, and business risks.*

*The information in this guide does not constitute a binding representation of the South Carolina Retirement Systems. The statutes governing the South Carolina Retirement Systems are found in Title 9 of the South Carolina Code of Laws. Should there be any conflict between this guide and the statutes or Retirement Systems' policies, the statutes and policies will prevail. Because state statutes are subject to change by the General Assembly, please contact the South Carolina Retirement Systems for the most current information.*

## Glossary

Investing terms and phrases you may want to know.

**401(k) savings plan and 457 savings plan.** Tax-deferred savings plans, both of which are offered under the South Carolina Deferred Compensation Program. Both plans allow employees to set aside tax-deferred dollars from their pay and decide how to invest that money under the funds offered by the plans. The names “401(k)” and “457” come from the portion of the Internal Revenue Code from which these plans were created.

**AICPA PFP.** An American Institute of Certified Public Accountants (AICPA) Professional Financial Planner. This person is a certified public accountant who has earned the financial planner designation from the AICPA.

**Annuity.** A contract sold by an insurance company. The contract makes payments to the holder at specified intervals (for example, monthly or annually), usually after retirement.

**Asset allocation.** The process of putting investments in different kinds of assets, such as stocks, bonds, and cash equivalents. Doing so reduces market risk and increases the chance for higher investment returns.

**Asset classes.** A type of investment, such as stocks, bonds, or cash equivalents.

**Capital appreciation.** An increase in the value of a stock.

**Cash equivalents.** Instruments or investments that are easily turned into cash and are so safe that they are virtually as good as cash. Examples are money market funds, Treasury bills, and stable value funds.

**CFA.** A chartered financial analyst. This person is an experienced financial analyst who has passed exams in economics, financial accounting, portfolio management, security analysis, and standards of conduct.

**CFP.** A certified financial planner. This person has passed a national test covering insurance, investments, taxation, employee benefits, retirement, and estate planning administered by the CFP Board of Standards. He must meet experience requirements and abide by a code of ethics.

**ChFC.** A chartered financial consultant. This individual is one of the insurance industry’s financial planners. He must pass exams in finance and investing.

**CLU.** A chartered life underwriter. This person must pass national exams in insurance and related subjects and have business experience in the insurance industry.

**Diversification.** An investment strategy that can reduce market risk by combining a variety of investments, such as stocks and bonds, which are unlikely to all move in the same direction at the same time.

**Dividend.** A periodic payment or distribution of earnings made by a company to stockholders.

**Fixed income.** A security that pays a specific interest rate.

**Foreign stock fund.** A mutual fund that invests in stocks outside the U.S. Typically in this kind of fund, if one market is in a slump, profits can still be earned in others.

**Guaranteed investment contract (GIC).** A “promise to pay” issued by an insurance company, usually in a large amount. The insurance company guarantees the interest rate paid on the amount promised but does not guarantee the principal. GICs are not guaranteed by a government agency. Many defined contribution plans, such as 401(k) plans, offer GICs as investment options.

**Income.** Money earned through investments.

**Inflation.** The loss of purchasing power that results from a general increase in the price of goods and services.

**Interest.** The fee charged by a lender to a borrower for using borrowed money. The fee is usually expressed as an annual percentage of the amount borrowed. The interest rate depends on how long the money is being borrowed, the likelihood that the borrower will repay the loan, and the current inflation rate.

**Large capitalization (“large cap”) stock fund.** Generally, a fund made up of stocks issued by the largest companies in the U.S., represented by the Standard & Poor’s 500 Composite Stock Index (S&P 500).

**Morningstar.** An independent, neutral company that analyzes and rates investment funds.

**Morningstar analysis.** An examination and interpretation of investment fund information provided by Morningstar’s analysts. They interpret the data on a Morningstar Page and interview the fund’s manager to uncover the strategies guiding the fund’s investment decisions. They also explain how and why a fund has performed as it has, and the role it could play in your portfolio.

**Morningstar Page.** A publication that offers insight into an investment fund’s style, offered by a Morningstar analyst. “Pages” are available for more than 1,000 funds and can be found in many public libraries.

**Principal.** The dollar amount of an initial investment.

**Prospectus.** A legal document offering securities or mutual fund shares for sale. It is required by the Securities Act of 1933. Among other things, it must explain the objectives (if the investment is a mutual fund) or planned use of the money (if the investment is a security), historical financial statements, and other information that could help an individual deciding whether to invest.

**Return.** The annual amount an investment earns or loses, expressed as a percentage of the total amount invested.

**Security.** A catchall term for stocks, bonds, and cash equivalents.

**Small capitalization (“small cap”) stock fund.** A fund made up of stocks issued by smaller companies. That stock is generally more volatile than larger capitalization stocks. These often offer higher potential returns than stocks of large companies, over the long run.

**Standard & Poor’s 500.** A composite stock index based on stock prices of 425 industrial, 50 utility, and 25 railroad companies.

**Tax-deferred.** Income whose taxes can be postponed until a later date.

**Volatility.** The relative rate at which the price of a security moves up and down.

**Yield.** Percentage of return on an investment.



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